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BY THE U.S. GENERAL ACCOUNTING OFFICE

## Report To The Secretary Of Defense

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# DOD Making Progress In Identifying And Marketing Obsolete Repair Parts

Obsolete defense items are generally defined as systems and associated repair parts no longer used by U.S. Forces. However, the systems may still be used by friendly foreign governments which may have a continuing need for the repair parts. The services should be identifying these parts and marketing them through system support buy-out procedures to friendly forces still using the systems.

In 1979 GAO reported that the U.S. Army was regularly marketing its obsolete items through a system support buy-out program. However, the U.S. Air Force and Navy were not. GAO recommended that the Air Force and Navy develop programs to regularly market their obsolete items. GAO's followup review shows that the Army has continued with its efforts and the Air Force and Navy began their programs in 1982.

GAO believes that DOD is making progress on system support buy-out programs. GAO also believes that the recent Air Force and Navy initiatives should be closely monitored to assure that they are achieving optimum results.



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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

B-217387

The Honorable Caspar W. Weinberger  
The Secretary of Defense

Dear Mr. Secretary:

We have completed a followup review to our May 16, 1979, report (LCD-79-211) on obsolete items held in Department of Defense (DOD) inventories. Our followup review showed that the Army has continued to regularly market obsolete items through the Foreign Military Sales (FMS) program and the Navy and Air Force are making progress toward implementing our prior recommendations. The Air Force and Navy started marketing obsolete items in 1982. These results are encouraging. However, we believe that the recent Navy and Air Force initiatives should be closely monitored to assure that the programs are fully developed and that they address important operational considerations. The results of our review are summarized below and discussed in more detail in the appendix.

BACKGROUND

Obsolete items are generally defined as systems and associated repair parts that are no longer used by our forces. However, some obsolete repair parts may be needed by friendly foreign governments to support weapon systems they acquired from the United States through the FMS program. In 1979 we reported that DOD was retaining millions of dollars in inventories of obsolete repair parts for possible sale to friendly foreign governments. By identifying foreign governments' needs and giving those governments the opportunity to purchase obsolete repair parts, DOD can enhance logistics support to foreign allies and generate revenue which can be used to acquire parts needed to support weapons systems still in use by U.S. Forces.

We reported that the Army had regularly marketed obsolete repair parts through a life-of-type buy policy. Under this policy obsolete repair parts were offered to friendly foreign governments still using the weapon systems that have been deactivated from U.S. military inventories. However, the Navy and Air Force had retained large quantities of these repair parts and had not regularly offered them through life-of-type buys to friendly foreign governments. We recommended that DOD direct the military services to

--identify the obsolete repair parts in their inventories,

- develop procedures for determining foreign governments' requirements for such material, and
- utilize the life-of-type buy policy to market the unneeded items to friendly foreign governments.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to (1) determine if DOD is still maintaining large inventories of obsolete repair parts and (2) review actions taken to offer these repair parts for sale (market) to foreign governments. We made this review in accordance with generally accepted government auditing standards.

We obtained information from January 1983 to December 1984 from DOD and service headquarters; Headquarters, Air Force Logistics Command, Dayton, Ohio; Naval Aviation Supply Office, Philadelphia, Pennsylvania; Naval Ship Parts Control Center, Mechanicsburg, Pennsylvania; Naval Supply Systems Command, Washington, D.C.; San Antonio Air Logistics Center, San Antonio, Texas; Warner Robins Air Logistics Center, Robins Air Force Base, Georgia; and U.S. Army Materiel Command, Alexandria, Virginia.

#### CURRENT STATUS

The Army has continued to monitor inventories of obsolete repair parts and has regularly processed life-of-type buys<sup>1</sup> for deactivated systems used by friendly foreign governments. Since our earlier report, the Army has processed about 200 life-of-type buys, now called system support buy-outs.

The Air Force has made progress in implementing our earlier recommendations and has recently taken some positive steps to identify and market obsolete repair parts to friendly foreign governments. If they are continued and effectively monitored to assure full implementation, these steps should enhance Air Force buy-out procedures. These actions (discussed in more detail in the appendix) are encouraging. In some cases, however, the Air Force continued to replenish stocks of obsolete items. These items, no longer needed by our forces, were (1) budgeted for and bought with U.S. procurement funds and (2) maintained in Cooperative Logistics Supply Support Arrangement<sup>2</sup> cases contrary to

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<sup>1</sup>A life-of-type buy is generally defined as the purchase of enough repair parts to meet requirements until the aircraft are also deactivated from friendly foreign governments' inventories.

<sup>2</sup>Agreement which provides for DOD logistics support to foreign governments when the United States sells foreign countries a weapon system used by our armed services. The intent of an agreement is to implement a joint logistics system for both DOD and participating foreign customers.

established policies. Also, to ensure timely identification of all repair parts that may become obsolete because of system deactivations, the Air Force needs to assure that (1) weapon system managers are notifying item management specialists of actions to deactivate weapon systems, (2) the accuracy of the repair parts application files is being updated and maintained to show actual aircraft applications and users of a part, and (3) item management specialists are routinely reviewing their repair parts to identify obsolete material.

In November 1984, the Navy issued interim procedures to cover its system support buy-out program. The Navy expects to publish formal procedures in April or May of 1985. Because of the large quantity of potential excess material still on hand (at least \$524 million), the Navy will have to closely monitor the implementation of its new system support buy-out procedures.

### CONCLUSIONS

Aggressive actions by the services to identify and initiate system support buy-outs through FMS channels could reduce the possibilities of either unnecessarily holding obsolete repair parts in service inventories or needlessly disposing of repair parts still needed by friendly foreign governments. Also, according to DOD, buy-out programs enhance logistics support to foreign allies.

The Army has continued to regularly market obsolete items through system support buy-out procedures. The Air Force and the Navy have also made progress in implementing buy-out programs. The Air Force and the Navy should closely monitor the implementation of their system support buy-out procedures to assure that they are being effectively applied.

### RECOMMENDATIONS

We recommend that you require the Secretaries of the Air Force and the Navy to closely monitor recent system support buy-out program initiatives. Monitoring efforts should be designed to assure that:

- Deactivation of weapon systems are coordinated on a timely basis between system managers and inventory control personnel so that obsolete repair parts can be promptly identified.
- Item application files are accurately maintained to facilitate the identification of obsolete repair parts which should be offered to friendly foreign governments through buy-out agreements.
- Item management specialists routinely review their repair parts to identify obsolete material.

- Cooperative Logistics Supply Support Arrangements are amended to remove obsolete repair parts. Stock levels of these parts should be identified, and the countries involved should be requested to withdraw their material equities in the inventory held for them and be offered an opportunity to buy any additional obsolete parts remaining after the withdrawals.
- Stock level replenishment buys of obsolete repair parts with DOD funds be discontinued. Demands from FMS customers should be supported on a direct cite funding basis using the friendly foreign governments' monies. Outstanding purchase requests and contracts for obsolete repair parts citing DOD funds should be converted to direct cite FMS monies.

#### AGENCY COMMENTS

A draft of this report contained three proposals. These were that the Secretary of Defense should direct (1) the Secretary of the Air Force to assure that the Air Force Logistics Center further develop and closely monitor its system support buy-out program, (2) the Secretary of the Navy to implement a system support buy-out program, and (3) the Secretaries of the Air Force and the Navy to assure that the programs include several administrative control procedures where we had found some weaknesses.

DOD provided official oral comments on a draft of the report. DOD expressed concern that the data used in the report reflected conditions that existed approximately 18 months ago. DOD stated that much progress has been made since that time, and current practices are closer to the intent of the proposals contained in the draft of this report. DOD provided additional facts and data to update our report. We have included this data where appropriate. Given the progress made by the Air Force and the Navy to implement system support buy-out programs, we have reconsidered our proposals that the Secretary of the Air Force further develop the Air Force program and that the Secretary of the Navy implement a Navy program.

Given the progress made by the Air Force, DOD believes that no further instruction to the Air Force is necessary. However, DOD did agree to direct the Air Force to continue its close monitoring of actions taken to manage obsolete repair parts. DOD concurred with our proposal that the Navy implement a program to offer system support buy-outs of obsolete repair parts. DOD noted that the Navy expected to publish its formal procedures for system support buy-outs in April or May of 1985.

DOD agreed that system support buy-out procedures should include the specific administrative control elements outlined in the above recommendation. It provided us with the procedures that the Navy has been using. DOD also noted that sufficient policy

and procedural guidance already exists in the Air Force, and that these criteria stress the actions we have outlined above. However, DOD did note that both the Air Force and the Navy plan further improvements in the coordination of system deactivations between system managers and item managers.

GAO ANALYSIS OF DOD COMMENTS

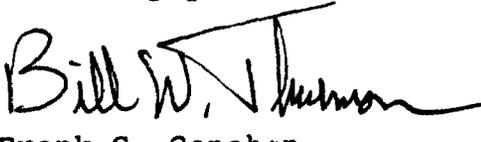
We agree with DOD that both the Air Force and Navy have made progress in implementing the recommendations from our 1979 report. We also agree that the Navy's issuance of interim instructions, including coverage of items formerly in Cooperative Logistics Supply Support Arrangements, is a step forward. Our primary concern in conducting our review was whether available criteria were being followed. As discussed in this report, we found that the available Air Force criteria were not being followed in some cases and the Navy had not yet published formal criteria. We believe that the programs need to be monitored to assure they are efficiently and effectively carried out. We have changed our proposals to a single recommendation emphasizing our concern that the Air Force and the Navy buy-out programs be monitored to assure that (1) they are fully developed and (2) they address the administrative control program elements outlined above. We intend to periodically assess the implementation of our recommendations.

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As you know, 31 U.S.C. § 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the above Committees as well as the Chairmen of the House and Senate Committees on Armed Services. We are also sending copies of this report to the Secretaries of the Army, Navy, and Air Force, and the Director, Office of Management and Budget.

Sincerely yours,

*for*   
 Frank C. Conahan  
 Director



DOD MAKING PROGRESS IN IDENTIFYING  
AND MARKETING OBSOLETE ITEMS

On May 16, 1979, we reported<sup>1</sup> that the services were retaining in their inventories millions of dollars of obsolete repair parts no longer used by our armed forces. We also reported that the services could have eliminated some of these inventories by giving friendly foreign governments the opportunity to purchase obsolete repair parts under DOD's life-of-type buy policy (now called system support buy-outs). Under this policy, when the services phase out a weapon system from their active inventories, they could offer friendly foreign governments an opportunity to make a one-time purchase of spare parts to support their weapon systems' remaining useful lives.

We reported that, of the three military services, the Army was the only one regularly applying the system support buy-out policy on weapon systems phased out of its programs. We made several recommendations to improve the services' effectiveness in identifying obsolete repair parts in their inventories and making them available for sale to friendly foreign governments. We have restudied this situation to determine the extent of such inventories still being held, and the actions taken by the services to identify obsolete material and pursue system support buy-outs with friendly foreign governments.

ARMY

In our earlier report we noted that the Army had offered about 70 system support buy-outs for such things as artillery pieces, rockets, and M-45 tank repair parts. These actions helped to maximize the Army's return on items sold and enhanced the logistics support to foreign allies.

Our current review showed that the Army has continued to regularly market obsolete repair parts to friendly foreign governments. From 1979 through September 1983, the Army processed about 200 system support buy-outs for obsolete repair parts. The dollar value of requisitions submitted by foreign countries for the system support buy-outs for this period totaled \$47.4 million.

AIR FORCE

In our earlier report we noted that the Air Force was not regularly identifying and marketing its obsolete repair parts to friendly foreign governments.

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<sup>1</sup>GAO letter report to the Secretary of Defense on excess and obsolete items held in Department of Defense inventories (B-146828/LCD-79-211).

Our followup review shows that the Air Force is making progress in implementing our prior recommendations. The Air Force has identified 51,600 obsolete repair parts and has made several system support buy-outs resulting in \$39 million in sales so far. We did, however, find some implementation problems and areas where the Air Force needs to assure that its procedures are being followed.

Obsolete repair parts were still being purchased

Demand data on obsolete repair parts remaining in the Air Force inventory were included in the requirements computations and, in some cases, the Air Force had made replenishment buys of the parts based on FMS requisitions. At both the San Antonio and Warner Robins Air Logistics Centers, stock replenishment buys had been made with Air Force procurement funds and budget submissions for spares replenishments contained amounts for some obsolete repair parts.

The following table shows examples of some obsolete repair parts that were being bought and stored at the San Antonio center after our 1979 report. These items were placed on contract between December 1981 and November 1982, and Air Force stock fund money was cited in each case.

<u>Nomenclature</u>	<u>National stock number</u>	<u>Quantity on contract</u>	<u>Cost</u>
Jack screw	1680-00-631-0605	22	\$39,853
Tube assembly	1680-00-594-4449	34	20,330
Headrest	1680-00-498-2985	165	9,996

We do not know the total number and value of obsolete repair parts restocked. However, after we started our followup review, officials at the San Antonio center began to monitor procurements and, as of July 1983, had canceled over \$350,000 of open purchase requests for obsolete repair parts. DOD said that as the Air Force continues to identify obsolete repair parts and recode them, replenishment buys of these items will be less likely to happen.

Obsolete repair parts were still being stocked for cooperative logistics agreements

When the United States sells foreign governments a weapon system used by our armed forces, a Cooperative Logistics Supply Support Arrangement (COOP-LOG) is made. Under COOP-LOG the United States buys and holds in storage specified stock levels for various friendly foreign governments based on their anticipated needs. The foreign governments reimburse the United States for the support provided.

The intent of the COOP-LOG is to implement a joint logistics system for both DOD and the participating foreign customers. Consequently, when repair parts become obsolete to DOD, they become ineligible for the joint logistics program, and according to Air Force policy, should be deleted from the COOP-LOG. When this happens the foreign countries are supposed to withdraw their material equity in the stocks and be offered additional quantities of these repair parts on a reimbursable basis. These reimbursements from foreign governments become direct credits to DOD procurement funds, thus increasing the dollars available to procure items needed by our forces.

We found that the Air Force did not always delete repair parts from COOP-LOGs when they were recognized as being obsolete. Rather, the Air Force continued to store and, in some cases, even restock these repair parts after the weapon systems were deactivated from U.S. Forces.

Some examples of obsolete repair parts not deleted from COOP-LOGs, and which the Air Force continued to maintain stock levels, are shown below.

<u>Nomenclature</u>	<u>Stock number</u>	<u>COOP-LOG stock level quantity</u>	<u>Value of COOP-LOG stock level</u>
Nozzle	2810-00505-8634PB	111	\$ 97,125
Cylinder	2810-00-203-2466PB	512	896,512
Cylinder assembly	2810-00-722-6702	661	1,095,277
Cylinder assembly	2810-00-722-6704	227	372,507

We do not know the total number and value of obsolete repair parts that need to be deleted from COOP-LOGs. But we identified over 100 such repair parts at the San Antonio center with stock levels totaling about \$4 million.

As early as April 1981, Air Force Logistics Command (AFLC) Headquarters personnel recognized that the Air Force had continued to replenish stocks of repair parts long after our forces had a need for them. They also recognized that those items which were obsolete to our forces should be deleted from COOP-LOGs and the participating countries should be requested to withdraw their material equity in the U.S. inventory. However, the Air Force did not have the capability to readily identify all obsolete repair parts and past practice had been to leave the parts in the COOP-LOG cases and in the computerized requirements computation systems. We found this practice still continuing in some cases and identified instances where U.S. funds were being cited to procure obsolete repair parts for stock.

Corrective actions in process

Since our 1979 report, the Air Force has established specific regulations to govern and control the identification and sale of repair parts obsolete to U.S. Forces but still needed by friendly foreign governments. In October 1982 the Air Force published Chapter 11, Air Force Manual 67-1, Vol. IX, to govern FMS support of U.S. Air Force deactivated systems and FMS customer system/item support termination. We believe this regulation contains adequate definitions and policies and sets forth management responsibilities. However, the Air Force had problems in implementing it because of problems in identifying all obsolete repair parts carried in the Air Force inventory and managed in the various automated requirements computation systems.

In April 1982 AFLC directed its air logistics centers to begin reviewing lists of reparable and consumable parts to determine who uses the parts--FMS countries, other DOD activities, or no users. The review result was to be a listing of parts available for sale to FMS countries. These and later listings from AFLC identified parts applicable to several types of aircraft no longer used by the Air Force.

The magnitude of the work required in identifying and listing available parts caused some delay in making offers to FMS countries. AFLC made its first offer of reparable parts in January 1983. In that offer, the countries were told that their FMS Order I stock levels on the repair parts would be deleted from sales agreements at the next semiannual agreement negotiations, and the countries would be asked to furnish disposition instructions for those items. Assets in the inventory above the FMS Order I levels were to be sold on a first-come-first-serve basis during the 2-year offer period. After the 2-year buy-out period, repair parts in the inventory were to be cataloged obsolete. In May 1983 a similar offer was made to sell consumable repair parts.

AFLC also advised the five air logistics centers that action was being taken centrally to change the acquisition advice code of the repair parts that were identified. This change would

- remove reparable parts from a country's Cooperative Logistics Supply Support Arrangement FMS Order I level and
- code requisitions for the repair parts involved as non-recurring and nonprogrammed, an action which prevents the requisition from being used in stock level computations.

AFLC had also advised the centers to

- not expend or budget Air Force funds for stock level requirements for obsolete repair parts,

--procure all current and future obsolete economic order quantity repair part backorders using only FMS direct cite funds, and

--delete all existing demands for obsolete repair parts in the economic order quantity system to suppress buy notices and replenishment of stock levels for these repair parts.

Air Force efforts  
bring results

Air Force efforts to identify and market obsolete repair parts have had beneficial results. According to data available at AFLC, the Air Force has identified about 51,600 obsolete parts. This included 10,600 reparable parts valued at \$89.5 million and 41,000 consumable items. The value of the consumable parts was not readily available. Also, according to AFLC data available as of September 1984, the Air Force has sold \$39 million in obsolete repair parts through its system support buy-out program. DOD commented that the Air Force efforts to identify and code obsolete repair parts will continue.

The corrective actions outlined above are encouraging. If they are continued and effectively monitored, they should result in better management of the obsolete Air Force repair parts identified in that special effort. However, to insure timely identification of all repair parts that may become obsolete because of system deactivations, the Air Force needs to assure that (1) weapon system managers are notifying item management specialists of actions to deactivate weapon systems, (2) the accuracy of the repair parts application files are being updated and maintained to show actual aircraft applications and users of a part, and (3) item management specialists are routinely reviewing their repair parts to identify obsolete material.

Officials at the San Antonio center who monitor the identification of obsolete repair parts told us that item management specialists are not receiving sufficient advance notice of system deactivations. This lack of timely notification can result in parts remaining in the active inventory, the automated requirements computation systems, and COOP-LOG cases after system deactivations. An October 1982 Air Force regulation governing deactivated systems calls for a system manager to develop a system support plan 3 years in advance of deactivation. We recognize stretched out delivery of follow-on systems and other problems can disrupt system deactivation schedules. However, we believe that even with these potential problems, system managers and item managers can coordinate on a more timely basis to assure better planning and management of repair parts that may become obsolete due to system deactivations. DOD agreed that system managers and item managers should coordinate on a more timely basis. It plans to reemphasize this requirement early in 1985.

While the AFLC-directed efforts to identify obsolete repair parts discussed above are encouraging, Air Force officials told us that item managers should be routinely identifying obsolete repair parts and changing the acquisition advice codes. This sets in motion the processes of (1) stopping routine procurement of obsolete repair parts, (2) dropping them from COOP-LOG cases, and (3) making system support buy-out offers to FMS customers. However, the review is generally a manual process and involves, among other things, researching parts application files which are incomplete and inaccurate. Air Force officials noted that screening repair parts to see if they are obsolete is a low priority work routine for item managers, but it should be an ongoing task.

### NAVY

In our earlier report, we noted that the Navy was holding \$426 million in excess inventory that had potential friendly foreign government use. The inventory consisted of about \$163 million in aircraft material controlled by the Aviation Supply Office and \$263 million in missiles, torpedos, and electronic testing equipment controlled by the Ships Parts Control Center. We also reported that the Navy did not have procedures to identify and market the obsolete repair parts.

When we visited the Ships Parts Control Center in October 1983, we found records showing that it controlled over \$524 million of potential excess material. But we could not readily determine how much of this material was obsolete and had application to friendly foreign governments still using our deactivated systems. The staff made a limited computer run which showed that at least \$7.5 million of the potential excess material could be used by friendly foreign governments.

We also requested information from the Aviation Supply Office to update the inventory amounts discussed in our 1979 report. However, the Office was unable to readily provide us with stratified inventory information on the quantities of excess material held, or how much of it could possibly be sold to friendly foreign governments.

### Navy making progress

On November 19, 1984, the Naval Supply Systems Command issued interim procedures covering Navy system support buy-outs. It is expected that the procedures will be published in final form in April or May of 1985. However, Navy commands were told to begin using the interim procedures. The procedures cover item nominations, selling prices, and the steps necessary to market obsolete material to friendly foreign governments. Also, using general DOD guidelines, the Navy has offered 15 buy-outs to friendly foreign governments since September 1982 and is currently drafting buy-out offers on two more systems. Details on the amount of sales generated from the 15 offers was not readily available.

Navy needs to monitor implementation of new procedures

The development of the system support buy-out procedures and the progress in offering system support buy-outs to friendly foreign governments are encouraging. However, as discussed above, we did find that the Ships Parts Control Center was holding \$524 million of potential excess material, a \$261 million increase over the \$263 million we reported in 1979. Also, the Aviation Supply Office could not readily provide us with updated data on its excess material or how much of it could possibly be sold to friendly foreign governments. Given what appears to be a buildup of excess material, at least at the Center, we believe the Navy should closely monitor the implementation of its new buy-out procedures to assure that they are being carried out effectively.

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